FILED
NOV 24 1967
JOHN F. DAVIS, CLERK

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1967

No. 335

THE HANOVER SHOE, INC.,

*Petitioner,*

v.

UNITED SHOE MACHINERY CORPORATION,

*Respondent.*

ON WRIT OF CERTIORARI TO THE COURT OF APPEALS
FOR THE THIRD CIRCUIT

## BRIEF FOR PETITIONER THE HANOVER SHOE, INC.

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# INDEX


| | PAGE |
|---|---|
| Opinions Below | 1 |
| Jurisdiction | 2 |
| Statutes Involved | 2 |
| Questions Presented | 3 |
| Statement of the Case | 4 |
| Summary of Argument | 7 |
| Argument | 11 |
| I—The Court of Appeals erred in requiring the District Court to reduce its damage calculations by whatever income tax reduction Hanover may have derived during the damage period as a result of leasing shoe machinery, as compared with the tax reduction it might have derived on the assumption—contrary to fact—that it had been able to buy shoe machinery, with the results that (a) the wrongdoer United is benefited at the expense of Hanover by the reduction of the damages payable by United and Hanover is twice subjected to taxes: (1) in the calculation of its damages and (2) when it again pays taxes on the recovery from which taxes have already been deducted in the damage calculations, and (b) contrary to Congressional policy Hanover is denied the damages it has sustained | 11 |
| II—The Court of Appeals erred in holding that United had monopolized the shoe machinery industry only after June 10, 1946, the date of the decision of this Court in *American Tobacco Co.* v. *United States*, 328 U.S. 781 and that its conduct, though the same both before and after that date, had been lawful prior to that date with the result that Hanover might not recover | |

PAGE

damages through the full period of the applicable statute of limitations from July 1, 1939 through June 1, 1955 but that instead its damage claim must be cut off on June 10, 1946 because the decision in *American Tobacco* should not be given retroactive application in a later treble damage antitrust case ..... 24

Conclusion ..... 41

## TABLE OF CASES

*A. C. Becken Co.* v. *Gemex Corp., aff'd,* 314 F.2d 839 (7th Cir.), *cert. den.,* 375 U.S. 816 (1963) ..... 20

*American Tobacco Co.* v. *United States,* 328 U.S. 781 (1946) ..... 4, 7, 8, 9, 24, 25, 26, 27, 28, 29, 31, 32, 33, 40

*Bauer & Cie* v. *O'Donnell,* 229 U.S. 1 (1913) ..... 40

*Cereal Byproducts Co.* v. *Hall,* 16 Ill. App. 2d 79, 147 N.E. 2d 383 (1958) ..... 17

*Charles Rubenstein, Inc.* v. *Columbia Pictures Corp.,* 176 F. Supp. 527 (D. Minn. 1959), *aff'd,* 289 F.2d 418 (8th Cir. 1961) ..... 20

*City of Atlanta* v. *Chattanooga Foundry and Pipe-works,* 127 Fed. 23 (6th Cir. 1903) ..... 21

*Commissioner of Internal Revenue* v. *Glenshaw Glass Co.,* 348 U.S. 426 (1955) ..... 4, 7, 13, 14, 18

*Emich Motors Corp.* v. *General Motors Corp.,* 340 U.S. 558 (1951) ..... 22

*Flintkote Co.* v. *Lysfjord,* 246 F.2d 368 (9th Cir. 1957) ..... 21

*Hanover Shoe, Inc.* v. *United Shoe Machinery Corp.,* 185 F. Supp. 826 (M.D. Pa.), *aff'd,* 281 F.2d 481 (3d Cir.), *cert. den.,* 364 U.S. 901 (1960) ..... 7, 8, 16

*International Harvester Co.* v. *Missouri,* 234 U.S. 199 (1914) ..... 29

*Lawlor* v. *National Screen Service Corp.,* 349 U.S. 322 (1955) ..... 21

PAGE

*Mandeville Island Farms, Inc.* v. *American Crystal Sugar Co.*, 334 U.S. 219 (1948) ..... 21

*North Texas Producers Assn.* v. *Metzger Dairies*, 348 F.2d 189 (5th Cir. 1965), *cert. den.*, 382 U.S. 977 (1966) ..... 19, 20

*Radovich* v. *National Football League*, 352 U.S. 445 (1957) ..... 21

*Simpson* v. *Union Oil Co.*, 377 U.S. 13 (1964) ..... 31, 32

*Southern Pacific Co.* v. *Darnell-Taenzer Lumber Co.*, 245 U.S. 531 (1918) ..... 19

*Standard Oil Co.* v. *United States*, 221 U.S. 1 (1911) 29

*Standard Sanitary Mfg. Co.* v. *United States*, 226 U.S. 20 (1912) ..... 29, 39

*Sterling Nelson & Sons, Inc.* v. *Rangen, Inc.*, 235 F. Supp. 393 (D. Idaho 1964), *aff'd*, 351 F.2d 851 (9th Cir. 1965), *cert. den.*, 383 U.S. 936 (1966) ..... 20

*Stokes* v. *United States*, 144 F.2d 82 (2d Cir. 1944) .... 16

*Straus* v. *Victor Talking Machine Co.*; 243 U.S. 490 (1917) ..... 40

*Straus* v. *Victor Talking Machine Co.*, 297 Fed. 791 (2d Cir. 1924) ..... 18, 20, 39

*Twentieth Century-Fox Film Corp.* v. *Brookside Theatre Corp.*, 194 F.2d 846 (8th Cir.), *cert. den.*, 343 U.S. 942 (1952) ..... 18

*Union Carbide and Carbon Corp.* v. *Nisley*, 300 F.2d 561 (10th Cir. 1961), *appeal dismissed*, 371 U.S. 801 (1962) ..... 20

*United Shoe Machinery Corp.* v. *United States*, 258 U.S. 451 (1922) ..... 10, 34, 35, 36

*United States* v. *Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945) ..... 9, 29, 32

*United States* v. *General Electric Co.*, 272 U.S. 476 (1926) ..... 31, 32

*United States* v. *Grinnell Corp.*, 384 U.S. 563 (1966) 30

*United States* v. *International Harvester Co.*, 274 U.S. 693 (1927) ..... 30

*United States* v. *Patten*, 187 Fed. 664 (S.D.N.Y. 1911) ..... 29, 33

*United States* v. *Reading Co.*, 253 U.S. 26 (1920) ..... 29

PAGE

*United States* v. *Southern Pacific Co.*, 259 U.S. 214 (1922) ..... 29
*United States* v. *Swift & Co.*, 286 U.S. 106 (1932) ..... 9, 30
*United States* v. *Union Pacific R. Co.*, 226 U.S. 61 (1912) ..... 29
*United States* v. *United Shoe Machinery Corp.*, 234 Fed. 127 (E.D. Mo. 1916) ..... 37, 38
*United States* v. *United Shoe Machinery Corporation*, 247 U.S. 32 (1918) ..... 10, 36
*United States* v. *United Shoe Machinery Corporation*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954) ..... 24, 25, 31, 34, 38
*United States* v. *United States Steel Corp.*, 251 U.S. 417 (1920) ..... 30
*United States* v. *Winslow*, 227 U.S. 202 (1913) ..... 10, 33, 36

**Statutes:**

Clayton Act (38 Stat. 731, 15 U.S.C.A.):
Section 4 ..... 3, 5, 8, 13, 14, 22, 24

Clayton Act (38 Stat. 731; 69 Stat. 283; 15 U.S.C.A. § 16a):
Section 5a ..... 2, 4, 8, 21, 22, 24, 25

Sherman Act (26 Stat. 209; 69 Stat. 282; 15 U.S.C.A. § 2):
Section 2 ..... 2, 3, 4, 5, 25, 26, 27, 28, 30

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## BRIEF FOR PETITIONER THE HANOVER SHOE, INC.

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### Opinions Below

The Findings of Fact, Conclusions of Law and Opinion of the District Court for the Middle District of Pennsylvania are printed (A 27) and reported 245 F. Supp. 258-99. The Supplemental and Amended Findings of Fact, Conclusions of Law and Opinion as Amended are printed (A 162) and reported 245 F. Supp. 299-308. The opinion of the Court of Appeals is printed (A 185) and reported 377 F.2d 776. The supplemental opinion following denial of rehearing is printed (A 217) and the Court of Appeals' per curiam decision denying rehearing is printed (A 227) and reported 377 F.2d 793.

## Jurisdiction

The jurisdiction of this Court is invoked under 28 U.S.C. Section 1254(1), 62 Stat. 928.

The Judgment and Order of the Court of Appeals was entered on April 11, 1967. An Order Amending Judgment and the Amended Judgment of the Court of Appeals was entered on June 7, 1967 and is printed (A 223). The order of the Court of Appeals denying rehearing was entered May 18, 1967 and is printed (A 227). The petition for a writ of certiorari was filed July 7, 1967 and was granted October 9, 1967 (A 229).

## Statutes Involved

The statutes involved are as follows:

15 U.S.C.A. § 2. Monopolizing trade a misdemeanor; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, § 2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282.

15 U.S.C.A. § 16. Judgment in favor of Government as evidence; suspension of limitations

(a) A final judgment or decree heretofore or hereafter rendered in any civil or criminal proceeding brought by or on behalf of the United States under the antitrust laws to the effect that a defendant has vio-

lated said laws shall be prima facie evidence against such defendant in any action or proceeding brought by any other party against such defendant under said laws or by the United States under section 15a of this title, as to all matters respecting which said judgment or decree would be an estoppel as between the parties thereto; *Provided,* That this section shall not apply to consent judgments or decrees entered before any testimony has been taken or to judgments or decrees entered in actions under section 15a of this title. Oct. 15, 1914, c. 323, § 5, 38 Stat. 731; July 7, 1955, c. 283, § 2, 69 Stat. 283.

15 U.S.C.A. § 15. Suits by persons injured; amount of recovery

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee. Oct. 15, 1914, c. 323, § 4, 38 Stat. 731.

## Questions Presented

The questions presented arise in an action for treble damages for violation of the antitrust laws in which plaintiff below, The Hanover Shoe, Inc. (hereinafter Hanover) brought an action against defendant, United Shoe Machinery Corporation (hereinafter United) to recover damages for injuries from monopolization by United of trade in shoe machinery in violation of Section 2 of the Sherman Act.

The questions presented are:

1. whether the party damaged is required to reduce its damage calculations, during the period of the statute of

limitations, by whatever income tax reduction it may have derived during the damage period as a result of leasing shoe machinery as compared with the tax reduction it might have derived on the assumption—contrary to fact—that it had it been able to buy shoe machinery when its claim of monopolization and violation of Section 2 of the Sherman Act is that, among other matters, United made its principal shoe machinery available to Hanover only on lease so that Hanover was unable to buy from United, and when, under the decision of this Court in *Commissioner of Internal Revenue* v. *Glenshaw Glass Co.*, 348 U.S. 426 (1955), Hanover will be subject to tax on the full trebled amount of its recovery;

2. whether on the record in this case United monopolized the shoe machinery trade in violation of Section 2 of the Sherman Act during the full period of the applicable statute of limitations, i.e., from July 1, 1939 through June 1, 1955, or whether the decision of this Court in *American Tobacco Co.* v. *United States*, 328 U.S. 781, on June 10, 1946 requires that the conduct of United be held to have been lawful prior to that date and unlawful after that date so that Hanover may not, as a matter of law, recover damages for conduct of United prior to that date, although it may for the same conduct thereafter, the reason being that the decision of this Court in *American Tobacco* may be given only prospective and not retrospective application in so far as it may be applicable to the conduct of United.

## Statement of the Case

This is an action by petitioner, Hanover, against United to recover treble damages for violation of Section 2 of the Sherman Act through alleged monopolization of the shoe machinery industry and alleged monopolistic practices with respect to substantially all shoe machinery re-

quired and used by Hanover, a manufacturer of men's welt shoes.

After trial before the District Court without a jury the Court concluded that United had violated Section 2 of the Sherman Act. It found that, among other matters, United's market share ranged from 89% to 100% of the 20 major machine types, the rentals and royalties of which accounted for more than 80% of the charges paid by Hanover to United.* It further found that United made its principal shoe machinery, including the 58 machine types leased by Hanover, available to shoe manufacturer cus-

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* The finding of the District Court on evidence as of May, 1947 is that:

"Of the 20 major machine types included in the 56, the rentals and royalties of which accounted for more than 80 percent of the charges Hanover paid United, United's market share was:

| | | |
|---|---|---|
| 100% | ..... | 4 types |
| 99% | ..... | 6 types |
| 98% | ..... | 4 types |
| 97% | ..... | 3 types |
| 89—93% | ..... | 3 types |
| | | 20 |

There is no evidence that United suffered any appreciable limitation in its share of the market with respect to these machine types prior to the filing of the complaint."

(A 34-35) (245 F.Supp. 265-266)

"As of about May, 1947, United's share of the market of 56 of the 58 lease-only machine types leased by Hanover—there being no data in evidence as to the remaining two—was as follows:

| | | |
|---|---|---|
| 100% | ..... | 10 types |
| 99% | ..... | 14 types |
| 98% | ..... | 7 types |
| 97% | ..... | 4 types |
| 96% | ..... | 5 types |
| 90—95% | ..... | 9 types |
| 85—89% | ..... | 1 type |
| 80—84% | ..... | 3 types |
| 55—69% | ..... | 3 types |
| | | 56" |

(A 34) (245 F.Supp. 265)

tomers only on lease and that as a result of the unlawful monopolization Hanover was required to pay more for leasing the shoe machinery it needed and used than it would have been required to pay had it been able to buy machinery in a free and competitive market and that Hanover was injured and sustained damage thereby (A 106-107) 245 F. Supp. 298.

The District Court fixed the period of time for which Hanover might recover damages as July 1, 1939 through September 21, 1955 (A 107) 245 F. Supp. 298-299. There is no dispute as to this (A 97, fn. 15; A 210-211) 245 F. Supp. 294 fn. 15; 377 F. 2d 790-791.* The District Court fixed the amount of Hanover's damage during this period of some 16 years as $1,413,203 (A 166) 245 F. Supp. 302 and entered judgment for $4,239,609 after trebling (A 180).

On appeal by United, the Court of Appeals vacated the judgment of the District Court as to damages and awarded a new trial limited to damages in accordance with the opinion of the Court (A 217-218, A 223-226) 377 F.2d 793.

The Court of Appeals held that the District Court had committed error:

A. In failing to reduce the amount of the damages by the amount of the reduction in taxes that accrued to Hanover during the damage period by reason of leasing its shoe machinery from United rather than owning it, assuming it had a choice (A 213-215) 377 F.2d 792-793; and

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* The Court of Appeals held that the damage period ended not on September 21, 1955 but on June 1, 1955, the date on which "the unlawful lease-only policy had ended," 377 F.2d 776, 791. This was the effective date of the final decree in the Government case. Hanover makes no issue on this point.

B. In awarding damages to Hanover for the period July 1, 1939, the commencement of the applicable statute of limitations, through June 10, 1946, the date of the decision of this Court in *American Tobacco Co.* v. *United States*, 328 U.S. 781 (A 203-209) 377 F.2d 787-790.

We submit that the Court of Appeals erred on both points.

## SUMMARY OF ARGUMENT

I. Hanover urges error in that the Court of Appeals, although it agreed with the holding of the District Court that Hanover was required to pay more on the leases for the use of its shoe machinery than it would have been required to pay if the machinery had been available for sale in a free and competitive market, held that the amount of Hanover's damages should be reduced by the difference between the tax consequences of leasing machinery and the tax consequences of owning machinery, even though Hanover was deprived by the defendant monopolist of the opportunity to buy the machinery. It is Hanover's position that such a holding benefits the wrongdoer, United, and imposes a penalty on the victim, Hanover, in that Hanover is twice subjected to taxation; first, by having its recovery reduced and second, by having to pay taxes on such reduced recovery, *Commissioner of Internal Revenue*, v. *Glenshaw Glass Co.*, 348 U.S. 426 (1955).

Hanover urges error in that the Court of Appeals (a) failed to follow the general rule applicable in tort and breach of contract cases to the effect that in determining damages tax consequences are not to be considered and (b) failed to follow the principle adopted by itself when it affirmed the District Court in *Hanover Shoe, Inc.* v. *United Shoe Machinery Corporation*, 185 F. Supp. 826 (M.D. Pa.

1960), *aff'd*, 281 F.2d 481 (3d Cir. 1960), *cert. den.* 364 U.S. 901 (1960).

Hanover urges error in that the Court of Appeals failed to follow the practice of other district and circuit courts which have uniformly awarded to successful treble damage plaintiffs the full damages sustained by them and disregarded tax consequences in doing so.

Hanover urges error in that the decision of the Court of Appeals is contrary to the Congressional policy enunciated in the Clayton Act, 15 U.S.C. Sections 15 and 16, that treble damage actions constitute one of the sanctions imposed for violation of the antitrust laws and that treble damage plantiffs be entitled to recover threefold the damages sustained by them.

II. Hanover urges error in the decision of the Court of Appeals that Hanover could not recover for damages inflicted prior to June 10, 1946, the date of the decision of this Court in *American Tobacco Co.* v. *United States*, 328 U.S. 781. The Court of Appeals reasoned that the decision in *American Tobacco* adopted a "new rule of law" that "for the first time" made United's conduct unlawful, that this decision might not be given retroactive effect and that, therefore, United had not violated the Sherman Act prior to that date. The period of the applicable statute of limitations was from July 1, 1939 through June 1, 1955. The result of the decision was to deprive Hanover of damages for almost seven years of the statutory period.

Hanover urges error in that United's overwhelming share of the shoe machinery market, ranging from 89% to 100% of the 20 major machine types, condemns it under the language of the statute and under decisions that long antedate the decision in *American Tobacco* in 1946.

Hanover also urges error in that the opinion in *American Tobacco* shows that this Court did not then announce a new rule of law; that in quoting and endorsing parts of the opinion of Judge Hand in *United States* v. *Aluminum Co. of America*, 148 F. 2d 416 (2d Cir. 1945) this Court was endorsing statements of law by Judge Hand expressly based upon earlier decisions of this Court, all of which long antedate the commencement of the period of limitations in the present case; that United stands condemned not only under the statute itself but under the interpretation of the statute stated in 1932 in *United States* v. *Swift & Co.*, 286 U.S. 106, 116, as a monopoly that abused its power through its long standing exclusionary lease-only policy and practices.

The Court of Appeals also erred in holding that the decision in *American Tobacco* in 1946 might be given only prospective application. Hanover submits that there is nothing in the opinion in that case to suggest that it be given anything but the full application given other decisions. The view taken by the Court of Appeals would nullify the statutory remedy provided by Congress to an injured person. There is no injustice, as the Court of Appeals stated, in the "retroactive imposition of the penalty of treble damages" (A 207) 377 F.2d 789. Hanover's right to recover damages for the injury done to it by the monopolist is provided by statute. It is entitled to recover.

The Court of Appeals was also in error in declaring that United's leasing policy met with "the approval" of this Court in "three successive decisions" and that it was, therefore, unjust to impose "the penalty of treble damages" upon United until June 10, 1946 when the decision in *American Tobacco* "for the first time made its conduct unlawful" (A 206-207) 377 F.2d 788-789. United's lease-only policy was not in issue in any of the three decisions. United's leases were not in issue in the 1913 decision in

*United States* v. *Winslow*, 227 U.S. 202. Its leases, though attacked in the 1918 case, *United States* v. *United Shoe Machinery Corporation*, 247 U.S. 32, were sustained as a proper exercise of United's patent rights, rights which have since expired. Its leases were attacked again in proceedings instituted promptly after enactment of the Clayton Act in 1914. Section 3 of that Act was applicable whether the machinery was patented or unpatented and United's leases were an explicit part of the legislative purpose of this Act. United was found to have violated the Act in the 1922 decision of this Court, *United Shoe Machinery Corp.* v. *United States*, 258 U.S. 451.

A substantial body of precedent gave United ample notice long before 1946 that any company that enjoyed from 89% to 100% of a market and that had throughout its history engaged in exclusionary conduct such as its lease-only policy and that had been publicly stated to be "a monopoly" in 1914 in the course of the legislative history of the Clayton Act and against which one of the provisions of the Clayton Act was directed,* was surely likely to be vulnerable under the antitrust laws.

The Court of Appeals erred in stating that United pursued its affairs "in the shelter of Supreme Court approval" (A 206) 377 F.2d 788. On the contrary, Hanover submits that United conformed its conduct to the law only as court orders required it to do so and only to the extent required.

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* See H.R. Rep. No. 627, 63d Cong., 2d Sess., p. 13 (quoted *infra* in footnote to page 35) on the legislative history of § 3 of the Clayton Act, 15 U.S.C. § 14.

## ARGUMENT

### I.

**The Court of Appeals erred in requiring the District Court to reduce its damage calculations by whatever income tax reduction Hanover may have derived during the damage period as a result of leasing shoe machinery, as compared with the tax reduction it might have derived on the assumption—contrary to fact—that it had been able to buy shoe machinery, with the results that (a) the wrongdoer United is benefited at the expense of Hanover by the reduction of the damages payable by United and Hanover is twice subjected to taxes: (1) in the calculation of its damages and (2) when it again pays taxes on the recovery from which taxes have already been deducted in the damage calculations, and (b) contrary to Congressional policy Hanover is denied the damages it has sustained.**

1. The decision of the Court of Appeals on this point.

Hanover's theory of damages, accepted by the District Court and the Court of Appeals, was that United's monopolization of the shoe machinery industry, effectuated by its unlawful policy of offering only on lease the principal machinery required by Hanover, injured Hanover in that "Hanover was required to pay more on the leases for the use of its shoe machinery than it would have been required to pay if the machinery had been available for sale in a free and competitive market" (A 211) 377 F.2d 791.

The decision of the Court of Appeals did not give full effect to this theory of damages. While it agreed with the District Court that damages should be measured by the excess of cost of leasing over cost of ownership in a free

market, it insisted that tax costs under both systems should be included in the calculation. For this purpose, the judgment of the District Court was vacated and a new trial ordered to permit "United to show the favorable tax consequences which Hanover obtained from leasing and the unfavorable consequences which would have flowed from ownership of the machinery" (A 215) 377 F.2d 792-793.

The reasoning of the Court of Appeals was that the damage calculation must be adjusted to take account of "the tax elements which would bear on Hanover's choice of purchasing rather than leasing the machinery it required" (A 214) 377 F.2d 792. This assumes, contrary to fact, that Hanover had a choice between leasing and purchasing. It had no such choice. The Court added that "the award of damages should not exceed the difference between the two alternatives as Hanover itself would have computed it" (*ibid.*)—after tax. The reference to the computations Hanover would have made is based on the assumption that Hanover, in choosing between leasing and owning, would have been guided solely by tax considerations; that Hanover would not have chosen to purchase its machinery, regardless of what other considerations might impel it to do so, if the after-tax savings appeared to be less than the savings computed before taxes. There is no support in the record for any such assumption.*

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* The record contradicts the assumption of the Court of Appeals as to how Hanover would have computed the differences between buying and leasing. On one occasion Hanover did indeed calculate the difference in costs between leasing and purchasing. That was when it decided in 1955 to purchase defendant's machines then in its factory which until then had been available only on lease and which United was then required to offer for sale. The record contains the calculations made by Hanover's treasurer, Paul Spears, as to the differences between the costs of leasing and purchasing (Defendant's Exhibit 33; R. 548), as well as the testimony of Paul Spears with respect to such calculation (R. 517-551) and the minutes of the meeting of the

2. The Court of Appeals erred in holding that in calculating "damages by him sustained" 15 U.S.C. § 15 the impact of taxes must be computed.

In an action for damages for violation of the antitrust laws the plaintiffs is entitled to recover threefold the full amount of damages it sustains. Plaintiff is then required to pay income tax on both the one-third compensatory damage component, § 61 Int. Rev. Code, and the two-thirds punitive damage component of its recovery, *Commissioner of Internal Revenue* v. *Glenshaw Glass Co.*, 348 U.S. 426 (1955). Under the correct and heretofore universal practice, plaintiff obtains judgment for the full amount of damages inflicted during the years of injury, without considering what the tax situation of plaintiff would have been if he had not been injured. He is thus made whole and pays his tax on the amount of damages to which he has been found entitled under the law in the year of recovery. In fact, Hanover paid no tax on this amount during the damage period because, due to United's violation of the Sherman Act, Hanover's receipt of the amount is postponed until the year of recovery.

The result of the decision of the Court of Appeals is that Hanover is required to give effect to tax consequences twice. First, its damages are reduced by the imposition of taxes on what would have been additional income in the years of damage and, second, they are further reduced by the imposition of taxes under Section 61 and the *Glenshaw*

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Board of Directors of Hanover at which the purchase was decided upon (Defendant's Exhibit 31; R. 274). Nothing in these exhibits nor in the testimony indicates that in choosing to purchase at that time, Hanover gave any consideration to the possible "tax consequences." Rather they demonstrate in making its decision Hanover considered only gross payments before taxes. (References in this footnote are to the transcript and to exhibits in the District Court, not printed in the Appendix.)

*Glass* decision on the remaining reduced recovery. As a consequence the wrongdoer United is benefited at the expense of Hanover in that the amount of damage it must pay is reduced by the "tax consequences" of the wrong to Hanover; conversely, the victim Hanover is not fully recompensed in that its damages are reduced by the amount of tax it is assumed it would have paid in the years of injury if the injury had not been inflicted and it must still pay taxes on the reduced sum in the year of recovery.

A simple illustration, taking no account of trebling, demonstrates the inequity which would result from the application of the rule enunciated by the Court of Appeals. For the purpose of this illustration, we have avoided the complexities mentioned, *infra* (see footnote, page 22), that might be brought into play in determining what taxes had to be considered, and have used a simple 50% tax rate applicable in all years. We have further rounded off to $1,400,000 Hanover's before-tax damages due to excessive rental costs. (These were set by the District Court at $1,413,203 (A 166) 245 F. Supp. 302.) With these assumptions the damages to be awarded pursuant to the Court of Appeals' interpretation of Section 4 of the Clayton Act 15 U.S.C. § 15, would be $700,000, and the financial effect on Hanover, the victim, after recovery and payment of taxes thereon would be:

| | |
|---|---|
| Excess Rental Charges* paid to United, 1939-1955 | $1,400,000 |
| Less reduction in taxes due to deduction of Excess Rental Charges from income (50% rate) | 700,000 |

* *I.e.*, excess of rental cost over free market ownership cost before tax.

| | | |
|---|---|---|
| Net out of pocket after taxes | | $ 700,000 |
| Recovery, if prior tax "saving" is deducted from Excess Rental Charges | $700,000 | |
| Less tax on recovery (50% rate) | 350,000 | |
| Net recovery | | 350,000 |
| Hanover out of pocket after recovery | | ($ 350,000) |

With the same assumptions, the effect on United, the wrongdoer, would be:

| | | |
|---|---|---|
| Excess Rental Charges received from Hanover | | $1,400,000 |
| Less tax paid thereon (50% rate) | | 700,000 |
| Net in pocket after taxes | | $ 700,000 |
| Recovery paid to Hanover | $700,000 | |
| Less reduction in taxes due to deduction of such payment from income (50% rate) | 350,000 | |
| Net amount paid out | | 350,000 |
| United in pocket after paying recovery | | $ 350,000 |

A rule by which the wrongdoer ends up with a $350,000 profit and the victim ends up $350,000 out of pocket is obviously unjust and patently absurd.

3. The District Court correctly disregarded tax considerations.

The correct rule applied by the District Court (A 92-93) 245 F. Supp. 292 is, we submit, that tax consequences

are not a part of the damage calculation.* This is the rule applicable in tort and breach of contract cases.* It is the rule applied by the late Judge Goodrich on the separate trial of the defense of United that Hanover had not been damaged because Hanover had passed on its loss to its customers in the sale of shoes. The District Court rejected this defense, *Hanover Shoe, Inc.*, v. *United Shoe Machinery Corporation,* 185 F. Supp. 826 (M.D. Pa. 1960), *aff'd,* 281 F.2d 481 (3d Cir. 1960), *cert. den.,* 364 U.S. 901 (1960), holding: "The plaintiff's injury occurred when it was charged too much for the machinery," and adding:

> "If it had not thus been illegally charged for machinery it would have had more money to pay out in dividends, or to engage in a further development campaign to sell its shoes, or to raise the wages of its employees, or to enlarge its bank account as protection against a rainy day, or for all of these things. The plaintiff against whom a tort is committed has his cause of action at the moment that the tort occurs. Of course, he is subject to the rule of avoidable consequences and cannot sit still and let damages pile up when reasonable steps would have prevented further consequential damages. But that is the extent of his obligation." 185 F. Supp. 829.

Judge Goodrich's decision supports the correct rule that tax consequences have no part in the damage calculation. It was error of the Court of Appeals to require that they be considered.

The Court of Appeals was less than accurate when it said that the District Court, in holding that tax conse-

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* This proposition was accepted by the District Court (A 92-93) 245 F. Supp. at 292, where it cited the cases collected in 63 A.L.R. 2d 1393 and 1433. See, *e.g., Stokes* v. *United States,* 144 F. 2d 82, 87 (2d Cir. 1944) (Frank, J.: amount of income taxes is "too conjectural.")

quences do not inure to the benefit of the defendants, relied upon Judge Goodrich's statement. It did so rely. But it also relied clearly and explicitly and, we submit, correctly on *Cereal Byproducts Co.* v. *Hall,* 16 Ill. App. 2d 79, 147 N.E. 2d 383 (1958). That was an action to recover damages resulting from the failure of defendant-auditors to discover embezzlements by one of the plaintiff's employees. As a result of the embezzlements, the plaintiff received a tax refund in the amount of $26,653.12, which the lower court offset against the recovery due from the defendants. The court said:

> "Plaintiff asserts that the income tax refund of $26,653.12 cannot be considered in mitigation of damages. The defendants answer that the trial court correctly held that the fixed and ascertainable tax benefit received by plaintiff as the result of its employee's embezzlement should be deducted from plaintiff's claim. Whether the plaintiff has received a tax refund on account of its loss is a matter that concerns only the plaintiff and the government. [Cases cited] The defendants did not cause nor did they provide the funds for the tax refund. On defendants' theory every suit for damages would necessitate consideration of the income taxes saved by the plaintiff on account of the loss and the taxes payable on account of the recovery. The same principle applies as would apply in the event plaintiff had carried insurance against these embezzlements. Neither payments by the insurance carrier nor tax refunds can mitigate defendants' liability. The insurance carrier would have an interest in the recovery from the defendants just as the federal government has a tax interest in the recovery by plaintiff. We think that the court erred in giving defendants credit for the income tax refund." (147 N.E. 2d at 384)

We have found no decision in any other circuit in an antitrust case, either before or after the *Glenshaw Glass* decision, that has considered tax consequences in calculating damages. On the contrary, the only antitrust case we have been able to find which even discussed the subject of taxes is *Twentieth Century-Fox Film Corp.* v. *Brookside Theatre Corp.*, where the plaintiff recovered. The case was tried in 1951 in the Western District of Missouri, and affirmed, 194 F.2d 846 (8th Cir. 1952), *cert. den.*, 343 U.S. 942 (1952). The charge to the jury in that case is set forth in CHARGES TO JURIES by Caskey & Scott, Vol. II, pages 760-761. The District Court's charge explicitly covered the very subject with which we are concerned here, to wit, the effect of income taxes on a plaintiff's recovery and said:

> "Your verdict should be in such sum as you find and believe from the evidence will reasonably compensate the plaintiff for the damages to its business or property, and I charge you that in considering such amounts, you should not take into consideration any question with respect to income taxes, state or federal, which have been paid or may hereafter be required to be paid.
>
> "If plaintiff is permitted to recover, it will be required to pay an income tax upon the amount of the verdict, and the amount of the tax which has already been paid by the defendants on their earnings and profits and which may be required to be paid by the plaintiff are matters for adjustment between the respective parties and the United States."

In every other case the courts have simply paid no attention to possible tax consequences. There is no clearer statement of the law as it existed until the decision by the 3rd Circuit below than in *Straus* v. *Victor Talking Machine Co.*, 297 Fed. 791 (1924) in the Second Circuit. The

court held that plaintiff's damages were the difference between what the Macy partners paid for defendant's merchandise and the price they would have paid in a free and open market.

The court, after citing the classic statement of Justice Holmes in *Southern Pacific Co.* v. *Darnell-Taenzer Lumber Co.*, 245 U.S. 531, 533 (1918), that

> "The general tendency of the law, in regard to damages at least, is not to go beyond the first step,"

went on to say:

> "Here the defendants themselves adduced testimony that the price charged by distributors to dealers under the price schedule of Victor Company was reasonable. The jury must have so found. Plaintiffs were compelled to pay more than this reasonable price. Why? Manifestly because the illegal combination forced them so to do in order to carry on the requirements of their business. Whether, then, plaintiffs sold to their customers at a profit or loss becomes immaterial in this case. They were entitled to goods at the reasonable price thereof. Through no legal faults of theirs, but because of defendants' wrong, they were deprived of their right, and the jury could find that such deprivation defined in money was the difference between the established reasonable price and the amounts plaintiffs were compelled to pay, provided as the trial judge charged, 'they acted reasonably in making these payments.' [Citing cases] It is thus unnecessary to 'go beyond' this 'first step.'" (297 Fed. at 803.)

Cases in other circuits are to the same effect.*

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* 5th Circuit. *North Texas Producers Assn.* v. *Metzger Dairies*, 348 F.2d 189 (5th Cir. 1965), *cert. den.*, 382 U.S. 977 (1966). Action under Section 2 of the Sherman Act. Approximately 60% of the total damages of $606,000 was assessed as the increased cost of obtaining monopolized product.

There is no difference cognizable in law between, on the one hand, damages caused by the exaction of higher prices, as in the *Straus* and *North Texas* cases, or by being deprived of additional income, as in the *Rubenstein* case, and, on the other hand, damages caused by imposition of higher charges for the use of machinery. In each instance, absent the restraint or monopoly, the victim would have enjoyed additional income. We believe it to be of more than passing significance that never before has any decision directed that there should be deducted from the damages designed to make the victim whole the difference between the tax payments he made and those he would have made if he had not been victimized. This is what the Court of Appeals has directed. Its decision stands alone.

4. The decision of the Court of Appeals is contrary to the Congressional policy evidenced by the Antitrust Laws.

The policy of Congress with respect to violations of the antitrust laws has long been crystal clear. The Sherman

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8th Circuit. *Charles Rubenstein, Inc.* v. *Columbia Pictures Corp.*, 176 F. Supp. 527 (D. Minn. 1959), *aff'd*, 289 F.2d 418 (8th Cir. 1961). Action under Sections 1 and 2 of the Sherman Act; damages computed on the basis of gross receipts minus a percentage of film rentals and plaintiff was awarded the difference in the net gross box office return which would have been achieved as compared with actual net gross box office return.

9th Circuit. *Sterling Nelson & Sons, Inc.* v. *Rangen, Inc.*, 235 F. Supp. 393 (D. Idaho 1964), *aff'd*, 351 F.2d 851 (9th Cir. 1965), *cert. den.*, 383 U.S. 936 (1966). Action under Section 3c of the Clayton Act relating to commercial bribery and rebates. Damages found to be an estimated profit of 15% on anticipated sales.

See also *A. C. Becken Co.* v. *Gemex Corp.* in the 7th Circuit, 1961 Trade Cases ¶70,118 (N.D. Ill. 1961), *aff'd* 314 F.2d 839 (7th Cir.), *cert. den.*, 375 U.S. 816 (1963) and *Union Carbide and Carbon Corp.* v. *Nisley* in the 10th Circuit, 300 F.2d 561 (1961), *appeal dismissed*, 371 U.S. 801 (1962).

Act carries with it both criminal and civil sanctions. On the criminal side the sanctions are a fine not exceeding $50,000 and imprisonment not exceeding one year. It is well known that the imprisonment sanction has been imposed only on rare occasions, and the possible fines are small in amount. On the civil side the Government can obtain an injunction which does no more than establish the illegality of a defendant's past practices and enjoin their continuance. Over and above these sanctions, which can be applied in Government actions, Congress has created perhaps the most potent of all the sanctions provided by the Act by according the remedy of the treble damage action to victims of antitrust law violations. To assist those victims in the proof of their claims Congress adopted Section 5 of the Clayton Act, 15 U.S.C. § 16, by the terms of which a judgment or decree in a provious Government action becomes prima facie evidence against the wrongdoer.

The Congressional policy underlying the role of the treble damage provisions in the enforcement of the antitrust laws has been emphasized in numerous decisions of this Court.* As this Court said in *Radovich* v. *National Football League,* 352 U. S. 445 (1957):

> "• • • Congress has, by legislative fiat, determined that such prohibited activities are injurious to the public and has provided sanctions allowing private enforcement of the antitrust laws by an aggrieved party. These laws protect the victims of the forbidden practices as well as the public. *Mandeville Island Farms, Inc.* v. *American Crystal Sugar Co.*; 334 U.S. 219, 236 (1948). Furthermore,

* *City of Atlanta* v. *Chattanooga Foundry and Pipeworks,* 127 Fed. 23 (6th Cir. 1903); *Lawlor* v. *National Screen Service Corp.,* 349 U.S. 322, 329 (1955); *Flintkote Co.* v. *Lysfjord,* 246 F.2d 368 (9th Cir. 1957); *Radovich* v. *National Football League,* 352 U.S. 445 (1957).

> Congress itself has placed the private antitrust litigant in a most favorable position through the enactment of § 5 of the Clayton Act. *Emich Motors Corp.* v. *General Motors Corp.*, 340 U.S. 558 (1951). In the face of such a policy this Court should not add requirements to burden the private litigant beyond what is specifically set forth by Congress in those laws." (352 U.S. at 453-454).

Acceptance of the unique construction of the treble damage provision enunciated by the Court of Appeals would seriously erode this Congressional policy.

In effect the Court of Appeals disregards the plain language of the statute that a plaintiff shall recover "threefold the damages by him sustained," 15 U.S.C. § 15. Rather, if the Court of Appeals opinion is a correct reflection of the law, a duty will be imposed on courts and on juries not to award to a plaintiff the "damages by him sustained" but rather a lesser amount determined after a calculation designed to determine the tax effects on the victim in the years of injury.*

Further, the rule enunciated by the Court of Appeals would inevitably result in discrimination based not upon the merits of the causes advanced by plaintiffs but on their tax statuses. If Hanover, for example, instead of having been a profitable enterprise during the damage period, had received no net taxable income during that period, there would be no taxes to be deducted from its recovery and it

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* The determination of the impact of taxes on business decisions of whether to buy or lease machinery no longer involves, as it did many years ago, the simple tax effect of deducting rental payments versus deducting straight line depreciation and repair and maintenance expenses. Today, and for many years, the tax laws have become enormously complex. Under the rule of the Court of Appeals, juries and already overburdened trial judges in antitrust cases would be immersed in such baffling tax problems such as various methods of deducting depreciation, recapture of depreciation, investment credits, net operating loss carryovers, and consolidated return aspects.

would accordingly receive a larger judgment than if it had operated at a profit and had paid taxes during the years covered by the damage period. Similarly, a tax-exempt municipality would receive a fuller measure of damages than would be awarded the ordinary plaintiff. The result is that the same wrong perpetrated by the same wrongdoer will in one case result in a judgment representing the full amount of the excess costs which have been inflicted upon the plaintiff while in another case it will not. There is nothing in the statute which suggests that such discrimination should take place among victims of antitrust violations.

Still further, contrary to the suggestion implicit in the Court of Appeals' opinion (A 213-215) 377 F.2d 792-793, income taxes are not a cost of doing business. Taxes are not incurred for the purpose of earning income. Rather, they are imposed upon income which has been earned and are not paid until the income has been earned. The government's right is to receive a share of the net income of a business after all costs and expenses have been deducted, an interest not unlike that of a partner. We submit, though the analogy is not exact, that, for purposes of damage calculations, taxes are no more deductible than would be profits distributed to partners or dividends paid to stockholders.

A monopolist, or any other violator of the antitrust laws, who might well be deterred by a judgment which trebled the full amount of the damage sustained by a victim, might be willing to run the lesser risk of a treble damage action in which the damages it would have to pay would be reduced by subtraction of putative tax "savings." On the other hand, the injured victim, faced with a recovery to be diminished by the deduction of tax "savings" from its damages and again by the imposition of taxes when re-

ceived, might well hesitate to invest the time, money and effort necessary to obtain a recovery significantly less than injured parties have heretofore received under the statute.

Whether viewed in the light of the effects it would produce on the parties to this action or in the light of the longstanding practice of the courts in other treble damage cases or in the light of the Congressional policy set forth in Sections 4 and 5 of the Clayton Act, 15 U.S.C. §§ 15 and 16, there is no justification in principle or precedent for the action of the Court of Appeals and its error should be corrected.

## II.

**The Court of Appeals erred in holding that United had monopolized the shoe machinery industry only after June 10, 1946, the date of the decision of this Court in *American Tobacco Co.* v. *United States*, 328 U.S. 781 and that its conduct, though the same both before and after that date, had been lawful prior to that date with the result that Hanover might not recover damages through the full period of the applicable statute of limitations from July 1, 1939 through June 1, 1955 but that instead its damage claim must be cut off on June 10, 1946 because the decision in *American Tobacco* should not be given retroactive application in a later treble damage antitrust case.**

1. The decision of the Court of Appeals on these points.

An important item of proof in support of Hanover's claim of monopolization by United was the final decree in *United States* v. *United Shoe Machinery Corporation*, 110 F. Supp. 295 (D. Mass. 1953), *affirmed per curiam*, 347 U.S. 521 (1954), (hereinafter the Government case), in which the District Court adjudicated that United violated

Section 2 of the Sherman Act by monopolizing the shoe machinery trade and commerce among the several states. This Court, in affirming, *per curiam*, the judgment of the District Court, stated that it did so "being satisfied that the findings are justified by the evidence and support the decree," (347 U.S. at 521). This final decree was offered and received in evidence under Section 5a of the Clayton Act (15 U.S.C. § 16a) as prima facie evidence of the alleged violation.

The Court of Appeals found that the decision in the Government case "demonstrates that the lease-only system itself was adjudicated in the Government case to be a means of monopolization," (A 203) 377 F.2d 787 and that Hanover was entitled to the benefit of this determination in the present action. The Court of Appeals correctly rejected United's contention that the adjudication of monopolization in the Government case operated only prospectively from the date of the decree therein and had no retrospective effect (A 204) 377 F.2d 787 but it then proceeded to hold that retroactivity did not extend to the beginning of the statutory period of limitation on July 1, 1939 but must be cut off on June 10, 1946 (A 204-209) 377 F.2d 787-790. The result of this decision was to require a recomputation of damages limited to the period after this newly-fixed date. The judgment below was, therefore, vacated and a new trial ordered limited to the recomputation of damages in accordance with the opinion of the Court (A 217) 377 F.2d 793.

The reasoning of the Court of Appeals in fixing a cut off date on June 10, 1946 was that this was the date of the decision of this Court in *American Tobacco Co.* v. *United States, supra;* that prior to that date a necessary element in a violation of Section 2 of the Sherman Act was proof of predatory practices; that in the Government case the Dis-

trict Court had found an absence of predatory practices by United; that it followed that United had not violated Section 2 of the Sherman Act prior to June 10, 1946 and that it also followed that, absent a violation of law during the period prior to June 10, 1946, Hanover might not recover damages for acts of United prior to that date (A 204-209) 377 F.2d 788-796.

The Court of Appeals observed that the retroactive effect to be given to a decision of a court "should be determined from the circumstances of the particular case, having in mind the purpose which the new rule of law [that of the *American Tobacco* decision] seeks to accomplish and the practical weighing of the comparative benefits and evils of retroactivity" (A 207) 377 F.2d 789. It concluded that it was unjust to impose "the penalty of treble damages" retroactively (*ibid.*).

The Court of Appeals noted that United had been involved in antitrust litigation that reached this Court on three occasions prior to the loss of the Government case. These earlier decisions, it was stated, gave United's counsel grounds for belief that its exclusionary lease-only policy stood under "the shelter of Supreme Court approval" (A 206) 377 F.2d 788 until the change of law occurred on June 10, 1946. As a consequence, it was held that United might carry on its practices in reliance upon those earlier decisions until June 10, 1946 when the *American Tobacco* decision presumably provided fair warning that all might not be well for United on the antitrust front.

The point stated above was neither briefed nor argued before the District Court or the Court of Appeals. The District Court correctly concluded that the proof before it showed a violation of the antitrust law by United throughout the period of limitations.

2. The Court of Appeals erred in holding.

(a) that the decision of this Court in *American Tobacco Co.* v. *United States,* 328 U.S. 781, 811-15 in 1946 announced a "new rule of law" that "for the first time made its [United's] conduct unlawful." (A 207) 377 F.2d 789; and

(b) that the decision in *American Tobacco* might be given only prospective application (A 205, 207) 377 F.2d 788, 790; and

(c) that United's "leasing policy in various forms" was approved "by three successive decisions" of this Court. (A 206) 377 F.2d 788.

The combination of these points formed the ground for the decision of the Court of Appeals that "United's conduct cannot be held to have violated § 2 of the Sherman Act at any time prior to June 10, 1946" (A 209) 377 F.2d 790: the date of the decision of this Court in the *American Tobacco* case. The drastic result of this holding is that United's monopolistic and exclusionary acts, that were the same before and after June 10, 1946, are to be treated as lawful before and unlawful after that date with the further result that the injured victim, Hanover, whose injury was the same both before and after that date, is to be allowed damages only after that date.

We submit that the statutory allowance of treble damages provided by Congress to an injured party may not be cut off in this fashion. The *American Tobacco* decision does not announce a new rule of antitrust law or work such a change in the interpretation of § 2 of the Sherman Act that United's long standing lease-only policy challenged here and earlier in the Government case became unlawful for the first time on June 10, 1946.

The unchallenged facts are that United's market position throughout the period of the statute of limitations was found by the District Court to be "an overwhelming share of the shoe machinery market" (A 35) 245 F.Supp. 266, a share that ranged from 89% to 100% of the 20 major machine types, the rentals and royalties of which accounted for more than 80% of the charges Hanover paid to United.* These findings are not challenged.

A market position of this dimension is condemned under the language of the statute and the statute was so construed by this Court in decisions that long antedate the *American Tobacco* decision of 1946.

The language of Section 2 of the Sherman Act condemns "Every person who shall monopolize, or attempt to monopolize . . ." and, absent a showing that the monopoly was "thrust upon" United, we submit that a control, however maintained, of 89% to 100% is surely, as both courts below found, a violation. It is a violation, we submit, on the face of the language of the statute. Monopolization is the ultimate evil against which the statute is aimed.** Even an attempt to achieve it is prohibited under Section 2.

(a) the decision in *American Tobacco* does not announce a new rule of antitrust law.

In its opinion in *American Tobacco* this Court quoted and endorsed, 328 U.S. at 813-814, five statements from the

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* *Supra* p. 5 and footnote.

** The strength with which this view was held is shown in the following statement of Senator Sherman in the Congressional debates on the Act:

"If the concentered powers of this combination are intrusted to a single man, it is a kingly prerogative, inconsistent with our form of government, and should be subject to the strong resistance of the State and national authorities . . ." 21 Cong. Rec. 2457. See also 21 Cong. Rec. 2460, 2598.

opinion of Judge Hand in *United States* v. *Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945). Judge Hand at no point suggested that he was announcing a new rule of antitrust law. On the contrary, he made the flat statement, quoted and endorsed in the *American Tobacco* opinion, that "In several decisions the Supreme Court has decreed the dissolution of such combinations, although they had engaged in no unlawful trade practices" *id.* at 429. In support Judge Hand cited four decisions of the Supreme Court in 1912, 1914, 1920 and 1922 that followed announcement of the rule of reason in 1911 in *Standard Oil Co.* v. *United States*, 221 U.S. 1:

> *United States* v. *Union Pacific R. Co.*, 226 U.S. 61, 88.
>
> *International Harvester Co.* v. *Missouri*, 234 U.S. 199, 209.
>
> *United States* v. *Reading Co.*, 253 U.S. 26, 57-59.
>
> *United States* v. *Southern Pacific Co.*, 259 U.S. 214, 230-231.

It was surely Judge Hand's view that no new rule of law was announced by him in Alcoa.

In addition, in its opinion in *American Tobacco Co.*, this Court quoted with evident approval the following language from *United States* v. *Patten*, 187 Fed. 664, a decision of a lower court in 1911:

> "It is undoubtedly true, under the law as it stands, that trade and commerce are 'monopolized' within the meaning of the federal statute, when, as a result of efforts to that end, such power is obtained that a few persons acting together can control the prices of a commodity moving in interstate commerce. It is not necessary that the power thus obtained should be exercised. Its existence is sufficient." *id.* at 672

United, with its overwhelming control of from 89% to 100%, was on notice from these and other early decisions that the words of Section 2 were to be read as they were written—monopolization was forbidden. Judge Hand in *Alcoa* relied heavily upon *United States* v. *Swift & Co.*, 286 U.S. 106 at 116. This Court in that 1932 case stated the rule to be:

> "Mere size, according to the holding of this court, is not an offense against the Sherman Act unless magnified to the point at which it amounts to a monopoly (*United States* v. *United States Steel Corp.*, 251 U.S. 417; *United States* v. *International Harvester Co.*, 274 U.S. 693, 708), but size carries with it an opportunity for abuse that is not to be ignored when the opportunity is proved to have been utilized in the past." 286 U.S. at 116

We submit that in the present case the record shows that United meets both points even though only one will suffice: (1) it is a monopoly with 89% to 100% of the trade and also (2) it has abused its power in its long standing exclusionary lease-only policy with the restrictive provisions of its leases.*

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* We have not deemed it necessary to review the law of Section 2 since the beginning of the period of the statute of limitations on July 1, 1939 in view of the issue now presented. However, the most recent statement of this Court in *United States* v. *Grinnell Corp.*, 384 U.S. 563 (1966) is, we submit, as applicable to United as the statement in the *Swift* case quoted above.

We refer to the following in the *Grinnell* opinion:

> "The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *id.* at 570-71.

Surely United's share of 89% to 100% of the relevant market meets the first point and its maintenance of that power through its exclu-

We are confident that the Court of Appeals was in error in supposing that United and its counsel had to await the decision of this Court in *American Tobacco* on June 10, 1946 to be on notice that their position and practices might be violative of the antitrust laws.

(b) It was error for the Court of Appeals to hold that the decision in *American Tobacco* was to be given only prospective application.

The decision in the *American Tobacco* case is silent as to whether it is to be operative retroactively or only prospectively. We find nothing in the opinion to suggest that it is to be given anything but the full application given other decisions.

In *Simpson* v. *Union Oil Co.*, 377 U.S. 13 (1964) this Court considered the application of *U.S.* v. *General Electric Co.*, 272 U.S. 476. In *General Electric* the Court found unobjectionable the use of the consignment sale method by a patentee to control the prices at which its consignee sold the patented articles, but did not restrict its holding to patented articles, saying expressly that the use of the consignment device was available to the owners of articles either "patented or otherwise," 272 U.S. 476, 488. *Simpson*

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sionary lease-only policy over many years meets the second. Judge Wyzanski held in the Government case that:

> "Much of United's market power is traceable to the magnetic ties inherent in its system of leasing, and not selling, its more important machines." (110 F. Supp. 295, 344).

Further,

> "[United's leases] are contracts, arrangements, and policies which, instead of encouraging competition based on pure merit, further the dominance of a particular firm. In this sense, they are unnatural barriers; they unnecessarily exclude actual and potential competition; they restrict a free market." (*id.* at 344-345.)

declined to follow *General Electric* so far as unpatented articles are concerned. Likely out of concern for those, including Union Oil, who may have relied on the language of *General Electric*, the Court in ordering a remand, recognized and expressly reserved "the question whether, when all the facts are known, there may be any equities that would warrant only prospective application in damage suits of the rule governing price fixing by the 'consignment' device which we announce today," 377 U.S. at 24-25. There was in *Simpson* a clear change of a rule the Court had previously laid down. No such change can be found in *Aluminum* or *American Tobacco* or, as we shall see, in the *United Shoe* cases.

If the Court of Appeals is correct, it would mean that no private action for treble damages might be brought against the defendants in *American Tobacco* or in *United States* v. *Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945), because the decisions in those cases, as the Court of Appeals reads them, would mean that there was no illegality until the day of decision. The result would be that the statutory remedy provided by Congress to an injured person would be nullified. A consequence so drastic warns against acceptance of the point made by the Court of Appeals.

We submit that the concern of the Court of Appeals for "the injustice of retroactive imposition of the penalty of treble damages" (A 297) 377 F.2d 789 is misplaced. Hanover's right to recover for injury done to it is granted by statute. Hanover established both violation and injury during the period of the applicable statute of limitations. It is entitled to recover.

(c) United's exclusionary lease-only policy was not in issue, much less approved, in earlier antitrust cases in which United was a defendant.

We turn next to the question as to whether, as the Court of Appeals declared, "the approval" of United's "leasing policy in various forms by three successive decisions" of this Court (A 206) 377 F.2d 788 made it unjust to impose "the penalty of treble damages" upon United until June 10, 1946 when the decision in *American Tobacco* "for the first time made its conduct unlawful" (A 207) 377 F.2d 789. The three decisions were in 1913, 1918 and 1922.

The first is *United States* v. *Winslow*, 227 U.S. 202 (1913). This was a criminal prosecution of the original combination of 1899 in which the District Court, on demurrer, construed the indictment as charging only a combination of non-competing companies. The Supreme Court regarded itself as bound by this construction and held that no offense was charged under the Sherman Act, 227 U.S. at 217. The leasing provisions and practices were not in issue, as this Court stated:

> "It is to be observed that the conditions now inserted in the leases are not alleged to have been contemporaneous with the combination, or to have been contemplated when it was made. The District Court construed the indictment as confined to the combination of February 7, [1899], that is, simply to the merger of the companies without regard to the leases subsequently made, 195 Fed. Rep. 592, 594; and we have no jurisdiction to review this interpretation of the indictment. *United States* v. *Patten*, 226 U.S. 525. Hence the only question before us is whether that combination taken by itself was within the penalties of the Sherman Act. The validity of the leases or of a combination contemplating them cannot be passed upon in this case. (227 U.S. at 216-217).

Hanover's complaint does not challenge the original combination of 1899.

The second is *United States* v. *United Shoe Machinery Corporation*, 247 U.S. 32 (1918). This was a civil proceeding to dissolve United that was brought contemporaneously with the criminal indictment. It, too, failed. The decision of the District Court dismissing the complaint was affirmed. This Court was divided 4 to 3. As to the original combination in 1899, this Court inquired as to whether the companies that were brought together were in competition, 247 U.S. at 40, stressed that the plants and patents of the companies were supplementary and non-competitive, *id.* at 40-56, and concluded:

> "The company, indeed, has magnitude, but it is at once the result and cause of efficiency, and the charge that it has been oppressively used is not sustained. Patrons are given the benefits of the improvements made by the company and new machines are substituted for the old ones without disproportionate charge. There has been saving as well in the cost of manufacture of shoes. These are some of the results of the organization of the United Company." *Id.* at 56.

We need not dwell on this aspect of the case because Hanover's complaint does not attack the original constitution of United in 1899.

The complaint also attacked the prohibitory clauses of United's leases of its shoe machinery. This Court, after reviewing eight specific clauses, accepted United's contention that the clauses were no more than exercises of United's right as holder of patents covering shoe machinery (*id.* 56-65). In the 1922 decision in *United Shoe Machinery Corp.* v. *United States*, 258 U.S. 451, this Court described the 1918 decision as one in which the leases "were sustained as valid and binding agreements within the rights of holders of patents." 258 U.S. at 460.

The second decision of 1918 could scarcely be of comfort to United because the law was changed by passage of the Clayton Act in 1914, even before the decision was reached. As this Court stated in the third decision in 1922, Section 3 of the Clayton Act "specifically applies to goods, wares, machinery, etc., whether *'patented or unpatented.'* This provision was inserted in the Clayton Act with the express purpose of preventing rights granted by letters patent from securing immunity from the inhibitions of the act." 258 U.S. at 460. Indeed, it was inserted, as the legislative history of Section 3 of the Clayton Act makes explicit, to deal with United's exclusive or tying provisions by which "the Shoe Machinery Co. has built up a monopoly."*

We submit that neither of these first two decisions furnishes any basis for the conclusion of the Court of Appeals that United was engaging in conduct "manifestly pursued

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* H.R. Rep. No. 627, 63d Cong., 2d Sess., p. 13 (1914). The report will also be found incorporated in S. Rep. No 698, 63d Cong., 2d Sess. (1914). The report singled out United as "a monopoly that owns and controls the entire machinery now being used by all great manufacturing houses of the United States," H.R. Rep. No. 627, 63d Cong., 2d Sess., p. 13. The pertinent part states:

> "Where the concern making these contracts is already great and powerful, such as the United Shoe Machinery Co., the American Tobacco Co., and the General Film Co., the exclusive or 'tying' contract made with local dealers becomes one of the greatest agencies and instrumentalities of monopoly ever devised by the brain of man. . . . By this method and practice the Shoe Machinery Co. has built up a monopoly that owns and controls the entire machinery now being used by all great shoe-manufacturing houses of the United States. No independent manufacturer of shoe machines has the slightest opportunity to build up any considerable trade in this country while this condition obtains. If a manufacturer who is using machines of the Shoe Machinery Co. were to purchase and place a machine manufactured by any independent company in his establishment, the Shoe Machinery Co. could under its contracts withdraw all their machinery from the establishment of the shoe manufacturer and thereby wreck the business of the manufacturer." *Ibid.*

in the shelter of Supreme Court approval" (A 206) 377 F.2d 788. On the contrary, we submit that United persisted in its restrictive lease provisions despite passage of the Clayton Act in 1914 and this brings us to the third decision in 1922, *United Shoe Machinery Corp.* v. *United States,* 258 U.S. 451, which held that a number of United's lease provisions were restrictive and ordered their discontinuance.

This Court put aside the protection of the 1918 decision that United claimed by stating that:

> "The issue whether the restrictive clauses were valid in view of the provision of the Clayton Act concerning machinery patented or unpatented was not and could not have been involved or decided in the former suit." 258 U.S. at 462.

This action under Section 3 of the Clayton Act did not attack United's lease-only policy but only certain restrictive provisions under Section 3.

We submit that there was nothing in any of the three earlier Government actions and in the decisions of this Court in those cases to "provide shelter of Supreme Court approval" (A 206) 377 F.2d 788 to United's long standing exclusionary lease-only policy and practice. This was not in issue in any of the cases until the United States filed its complaint in the Government case in 1947.

The first case, the 1913 *Winslow* case, was concerned only with the integration of non-competing entities. The second case, the 1918 *United* case, never reached a consideration of the effect of the lease restrictions. Rather, it looked upon those restrictions as a proper exercise of its patent rights by United. The third *United* case was not decided by this Court until 1922, although it was instituted by the Government promptly after the adoption of the

Clayton Act. The decisions of the District Court in that case are reported in 227 Fed. 507 (E. D. Mo. 1915), 234 Fed. 127 (1916) and 264 Fed. 138 (1920). There certain specific provisions of United's leases were held violative of Section 3 of the Clayton Act. Two of the then lease provisions, the full capacity clause* and the surplus machines provision,** were held not to be unreasonable as such (234 Fed. 127, 151 and 264 Fed. 138, 167), although the district court did not inquire into their operation.

Thus, by 1922 United had been told by this Court that its ownership of patents gave it no right to include in its leases anti-competitive provisions. United was not deterred. Rather it persisted in its efforts to tie shoe manufacturers to it and thus to exclude competitive manufacturers of machines. This it accomplished by its lease-only policy and by the restrictive provisions of its leases and the policies it followed in its dealings with its lessees.

By the time the Government action was instituted the patent protection on which United relied so heavily in the earlier case had been largely, if not entirely, dissipated, the district court finding:

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* ". . . Subject to the foregoing limitations, the lessee shall use the leased machinery to its full capacity upon all boots, shoes, or other footwear, or portions thereof, made by or for the lessee in the manufacture or preparation of which such machinery is capable of being used." (234 Fed. 127, 131)

** "In case the lessee, at any time, shall have in his factory more machines adapted for doing the same work as any machine or machines hereby leased than in the opinion of the lessor are sufficient for performing the work which the lessee has in his factory, based upon the capacity of such machines and the number and kind of boots, shoes and other footwear made by the lessee for any period of twelve (12) consecutive months next preceding, the lessor may, at its option, upon thirty (30) days' notice in writing to the lessee, terminate the lease and license herein contained and in respect to such of the said machines as in the opinion of the lessor are unnecessary." (234 Fed. 127 at 132)

> "The evidence does not permit of specific findings as to the technical scope, the legal strength, or the commercial value of the individual patents. It is, however, plain that most of the patents on the fundamental inventions have expired, and that most existing patents do not technically prevent the accomplishment of the same result in another way. Thus, it is clear that United's present dominance does not rest primarily on patents." (110 F. Supp. at 333)

In the Government action the lease provisions and the leasing policies found violative of the law were different from those set aside in the 1922 Clayton Act case. United no longer referred to itself as offering to "lease and license," but only to "lease."* Of the clauses involved in the 1922 case, only the two mentioned above remained, now in slightly modified form. Of those, the surplus machines provision was of no moment, 110 F. Supp. 295, 317, but the full capacity clause, 110 F. Supp. at 315 was held to have been applied by United in discriminatory fashion which deterred the use of competitive machinery, *id.* at 320-321, and its continuance was enjoined, *id.* at 352.

Far from United operating under the "shelter of Supreme Court approval" (A 206) 377 F.2d 788, at no time did this court or any other court hold that United, with its 89% to 100% monopoly, had a right in law to follow a policy of leasing, not selling, the more important machines or of leasing them under terms which were anti-competitive both in intent and effect. It was not until 1955 that United's lease-only policy ended and then only because of this Court's affirmance of the order against United.

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* Compare lease provision in 234 Fed. 127, 132 with similar provision set out in 110 F. Supp. 295, 317.

We do not find in this conduct the situation that the Court of Appeals describes of "businessmen" who "must rely upon counsel, who in turn are guided by the existing precedents in making difficult decisions on the effect of the antitrust laws on specific business conduct" (A 207) 377 F.2d 789. There is no claim by United in this record that it relied on counsel. There is not a scrap of evidence on this point nor was any such contention made on its behalf. On the contrary, United, we submit, made its own precedents as a party defendant and conformed its conduct only as court orders required and only to the extent required.* These were not "difficult decisions." They were required decisions.

The Court of Appeals, in addition, disregarded antitrust decisions of long standing in which the plea of reliance on counsel and precedents had been rejected. In *Standard Sanitary Mfg. Co.* v. *United States,* 226 U.S. 20 in 1912 the principal individual defendant, Wayman, urged that he "and the manufacturers were advised by able and competent lawyers of the legality of their plan" and the form of patent liecnse "followed the precedents," *id.* at 39. These declarations of good motives were of no avail.

*Straus* v. *Victor Talking Machine Co.,* 297 Fed. 791, 794 (2d Cir. 1924) presented a situation in which defendant

* For example, Brown, president of United, received a committee of shoe manufacturers in 1950 which, among other points, asked that United consider making certain machines, then offered on a lease-only basis, available on an optional lease or outright purchase basis. Brown's response was that "our whole leasing system is under attack by the government in the anti-trust suit," and he declined "to discuss or consider any change which would affect our leases or leasing policies until the Court has handed down its decision." (A 480-483; A 607-618.)

Sheppard, president of Hanover, was spokesman for the committee of shoe manufacturers (A 482).

Victor patterned its new marketing plan, announced on August 1, 1913, upon the decision of this Court on May 26, 1913 in *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1. This explicit evidence was to no avail. Victor's plan was declared to be illegal in 1917 in *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490. In Straus' treble damages action that followed, Victor's claim of reliance on the 1913 decision in *Bauer* v. *O'Donnell* was merely noted in the opinion of the Circuit Court of Appeals, 297 Fed. at 794. It had no legal significance. Judgment for treble damages was affirmed.* The illegality of Victor's marketing plan, despite Victor's reliance upon an earlier decision, was established in the 1917 decision of this Court, 243 U.S. 490.

We find no "injustice" to United in the award to Hanover of the damage it sustained and proved throughout the period of limitations. We find nothing in the legal position of United following loss of the Government case that requires that Hanover's claim for damages be cut off on the date of the *American Tobacco* decision in 1946. United's share of the market and its exclusionary lease-only policy were the same before and after that decision and throughout the period of limitations in Hanover's present case.

There was a substantial body of authoritative antitrust law long before 1946 that gave ample notice to any company that held from 89% to 100% of a market and that had for years engaged in exclusionary conduct that it

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* *Id.* Damages were allowed for the period from May 1, 1914 (the date when Victor cut off plaintiff Macy because Macy would not sign the agreement for Victor's new new marketing plan) to May 29, 1917 (the date when Victor's marketing plan was terminated following the decision on April 9, 1917 of this Court in Straus v. Victor Talking Machine Co., *supra*, declaring it to be illegal), 297 Fed. at 795-96.

might surely be required to bring its affairs into conformity with the law. United, however, chose to await the final decision of this Court in 1955. Then and only then did it change its exclusionary policy not by choice but because it was confronted with a court order that had been affirmed by this Court.

## CONCLUSION

For all of the reasons stated above, Hanover asks that:

1. the amended judgment of the Court of Appeals dated June 7, 1967 be reversed in so far as it

   (a) orders and adjudges that the judgment of the District Court dated August 13, 1965 be vacated as to damages and a new trial awarded limited to damages, and

   (b) orders that the award of counsel fees by the District Court be vacated and that said award be recomputed,*

2. the Court of Appeals be directed to affirm the judgment of the District Court dated August 13, 1965; and

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* The award of counsel fees by the District Court was vacated by the Court of Appeals only because it had reduced the period for which damages were to be awarded and had ordered a retrial as to damages to take account of the claimed tax benefits to Hanover on account of leasing. The Court of Appeals directed that counsel fees be redetermined in the light of whatever damages the District Court might find on rehearing (A 217) 377 F.2d 793. There will be no need to recompute damages if this Court sustains Hanover's contentions on these points. It follows that there will also be no need to recompute counsel fees. Hanover, therefore, asks that the amended judgment of the Court of Appeals be reversed in so far as it orders that the award of counsel fees by the District Court be vacated.

3. said amended judgment of the Court of Appeals be affirmed in so far as it provides for a reconsideration by the District Court of the issues raised before the Court of Appeals, not decided by the Court of Appeals, and not in issue before this Court, with respect to Hanover's cross-appeal from the judgment of the District Court in so far as said judgment excludes from the damage calculation damages with respect to one machine, United's Goodyear Outside Rapid Lockstitch Machine.

Respectfully submitted,

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Dated: November 24, 1967